



Financial Statements  
June 30, 2011 and 2010

Department of Agriculture Corn  
Check-Off Fund of the South Dakota  
Corn Utilization Council

# South Dakota Corn Utilization Council

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June 30, 2011

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CPAs & BUSINESS ADVISORS

## Independent Auditor's Report

The Honorable Dennis Daugaard  
Governor of South Dakota

and

The Board of Directors  
Sioux Falls, South Dakota

We have audited the accompanying balance sheet of the Department of Agriculture Corn Check-off Fund of the South Dakota Corn Utilization Council as of June 30, 2011, and the related statement of revenues, expenditures and changes in fund balance for the year then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements referred to above present only the Department of Agriculture Corn Check-Off Fund of the South Dakota Corn Utilization Council and do not purport to, and do not, present fairly the financial position of the State of South Dakota as of June 30, 2011, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Agriculture Corn Check-Off Fund of the South Dakota Corn Utilization Council as of June 30, 2011, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2011, on our consideration of the Department of Agriculture Corn Check-Off Fund of the South Dakota Corn Utilization Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Department of Agriculture Corn Check-off Fund of the South Dakota Corn Utilization Council has not presented Management's Discussion and Analysis (MD & A) or certain budgetary information as required by the Governmental Accounting Standards Board that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The list of officials on page 14, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. The list of officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Sioux Falls, South Dakota  
November 8, 2011

Department of Agriculture Corn Check-Off Fund of the  
South Dakota Corn Utilization Council

Balance Sheet  
June 30, 2011

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Assets

Cash and investments	\$ 2,597,704
Interest receivable	<u>13,606</u>
Total assets	<u><u>2,611,310</u></u>

Liabilities and Fund Balance

Accounts payable	<u>28,276</u>
Total liabilities	<u>28,276</u>

Restricted fund balance	<u>2,583,034</u>
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Total liabilities and fund balance	<u><u>\$ 2,611,310</u></u>
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Department of Agriculture Corn Check-Off Fund of the  
South Dakota Corn Utilization Council  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Year Ended June 30, 2011

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Revenues	
Check-off fees	\$ 5,044,540
Investment return - SD Investment Council	73,001
Miscellaneous revenue	126
Total revenues	<u>5,117,667</u>
Expenditures	
Grants and subsidies	2,028,913
Contractual services	2,584,072
Personnel services	83,624
Travel	99,380
Supplies and materials	18,850
Total expenditures	<u>4,814,839</u>
Excess of Revenues over Expenditures	302,828
Beginning Fund Balance	<u>2,280,206</u>
Ending Fund Balance	<u>\$ 2,583,034</u>

## **Note 1 - Summary of Significant Accounting Policies**

### **Reporting Entity**

The fund included in this report is a fund of the State of South Dakota Corn Utilization Council. The South Dakota Corn Utilization Council is a functional subunit of the Department of Agriculture which was created under SDCL 38-32 for market maintenance and expansion, research, education, transportation, and for the prevention, modification or elimination of trade barriers which obstruct the free flow of corn and corn products to market.

### **Fund Accounting and Governmental Fund Type**

The accounts are organized on the basis of funds, each of which is considered a separate accounting entity, with its own set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in this report is classified as a Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The Corn Check-off Fund is a Special Revenue Fund for the collection and expenditure of corn check-off fees.

### **Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

All governmental funds are accounted for on the modified accrual basis of accounting. The modified accrual basis of accounting recognizes revenues in the period in which they become available and measurable. The revenue which was accrued at June 30, 2011, is interest receivable. Expenditures are generally recognized when the related fund liability is incurred. Grants and similar expenditures are recognized when the recipient has met all eligibility requirements.

### **Cash**

Cash includes cash on hand, demand deposits and a participating interest in the State's internal investment pool held by the State Treasurer. The amount held in the State's internal investment pool is reported at fair value.

Department of Agriculture Corn Check-Off Fund of the  
South Dakota Corn Utilization Council

Notes to Financial Statements  
Year Ended June 30, 2011

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### Deposits

Management of the State's internal investment pool is the statutory responsibility of the South Dakota Investment Council (SDIC). The investment policy and required risk disclosures for the State's internal investment pool are presented in the SDIC's audit report which can be obtained by contacting the Department of Legislative Audit, 427 South Chapelle, c/o 500 East Capitol, Pierre, South Dakota 57501. Funds on deposit with the State Treasury are invested by the State Investment Officer pursuant to SDCL 4-5-23 with the Council getting its proportionate share of interest income under SDCL 4-5-30. The Council did not have privately held investments as June 30, 2011.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. The bank account is insured by the Federal Deposit Insurance Corporation up to \$250,000. At times during the year, the Organization's bank balance exceeded this limit.

The carrying amount of cash deposits was \$10,435 at June 30, 2011. Deposits are reported at cost, plus interest.

The South Dakota Corn Utilization Council participates in the investment pool managed by the South Dakota Investment Council. Under South Dakota Codified Law, the South Dakota Investment Council pools all participating monies for investment purposes and allocates all earnings of the investments back to the individual participating funds in the same ratio as the average daily cash balance of each participating fund bears to the average cash balance of the participating funds.

Cost and fair value, which approximates market value, of cash and investments on June 30, 2011, consist of the following:

	<u>Cost</u>	<u>Fair Value</u>
Cash and investments managed by the South Dakota Investment Council	<u>\$ 2,561,139</u>	<u>\$ 2,587,133</u>

At June 30, 2011, all investments of the South Dakota Corn Utilization Council were classified into the following risk category: investments that are insured or registered or which securities are held by the Council or its agent in the Council's name. South Dakota Codified Laws permit the Council funds to be invested in securities of the United States Government, either directly or indirectly, and redeemable within eighteen months from the date of purchase. The maturity date may exceed eighteen months.

### Fund Balances

Restricted fund balances represent revenues that are externally restricted or revenues that have restrictions imposed upon them, limited to the requirements of SDCL 38-32.

### Subsequent Events

The Council has evaluated subsequent events through November 8, 2011, the date which the financial statements were available to be issued.



Department of Agriculture Corn Check-Off Fund of the  
South Dakota Corn Utilization Council  
Notes to Financial Statements  
Year Ended June 30, 2011

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**Note 2 - Check-Off Fees**

The South Dakota Corn Utilization Council, pursuant to SDCL 38-22, has imposed a one cent per bushel assessment on all corn marketed to a first purchaser within the state. The assessments are deducted from the purchase price by the first purchaser and remitted to the South Dakota Corn Utilization Council within 30 days after the end of each calendar quarter. Any grower subject to this assessment may, within 60 days of the assessment, make application to the South Dakota Corn Utilization Council for refund of the assessment. Check-off fees reported in this report are presented net of amounts refunded in accordance with accounting principles generally accepted in the United States of America. For the fiscal year ended June 30, 2011, fees totaling \$5,495,040 were collected and fees totaling \$450,500 were refunded.

**Note 3 - Statement of Expenses Paid – Budget and Actual (Budgetary Basis)**

		2011	
	Budgeted	Actual	Variance
Contractual services and grants	\$ 4,405,000	\$ 4,612,985	\$ (207,985)
Personnel services	127,667	83,624	44,043
Other	500,000	-	500,000
Travel	100,000	99,380	620
Supplies and materials	30,000	18,850	11,150
Total	<u>\$ 5,162,667</u>	<u>\$ 4,814,839</u>	<u>\$ 347,828</u>

**Note 4 - Retirement Plan**

The South Dakota Corn Utilization Council participates in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan established to provide retirement, disability, and survivor benefits for employees of the State and its political subdivisions. Authority for establishing, administering, and amending plan provisions is found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements, footnote disclosures, and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Employees are required by state statute to contribute 6 percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. The right to receive retirement benefits vests after three years of credited service. The South Dakota Corn Utilization Council contributions to the SDRS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$6,864, \$6,880 and \$6,922 respectively, equal to the required contributions each year.

**Note 5 - Management Agreement**

South Dakota Corn Utilization Council (SDCUC) has a management agreement with South Dakota Corn Growers Association (SDCGA). The management agreement is renewed at the end of each fiscal year and may be terminated by either party with a one hundred eighty day written notice. Under this agreement, SDCGA shares their employees with SDCUC. These shared positions are as follows: Office Manager, Administrative Assistant, Communications Director, and Market Development Director and Legislative and Industry Director. Additionally, the management agreement provides for office space rental, insurance, use and maintenance of office equipment, office supplies, and telephone expenses.

SDCUC pays a monthly fee for these benefits. This fee is based upon a percentage of the estimated total cost for the above personnel and office expenses and a 15% operating margin. For the fiscal year ended June 30, 2011, the total costs and operating margin paid to SDCGA by SDCUC were \$527,988. The expenditure is recorded in contractual services on the statement of revenue, expenditures, and changes in fund balances.

SDCUC has signed a lease agreement with SDCGA commencing January 1, 2012 for new office space. The term of the lease is for eleven years and called for payment up front of \$668,437. The expenditure is recorded in contractual services on the statement of revenue, expenditures, and changes in fund balances.

**Note 6 - Risk Management**

The Council is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Council carries commercial insurance for all significant risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

**Note 7 - Future Commitments**

The Council has committed \$2,000,000 for funding a Dean for the School of Agriculture and Biological Sciences at South Dakota State University. The Council has paid \$750,000 of the endowment as of June 30, 2011, and expects to pay the remaining \$1,250,000 when funds are available.



CPAs & BUSINESS ADVISORS

**Report on Internal Control over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

The Honorable Dennis Daugaard  
Governor of South Dakota

and

The Board of Directors  
South Dakota Corn Utilization Council  
Sioux Falls, South Dakota

We have audited the financial statements of the Department of Agriculture Corn Check-off Fund of the South Dakota Corn Utilization Council (Council) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 8, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Department of Agriculture Corn Check-off Fund of the South Dakota Corn Utilization Council's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as Finding 2011-1 in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as Finding 2011-2 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Department of Agriculture Corn Check-off Fund of the South Dakota Corn Utilization Council's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Council's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of the board of directors, management and the South Dakota Department of Agriculture. This report is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Eric Sully LLP".

Sioux Falls, South Dakota  
November 8, 2011

Department of Agriculture Corn Check-Off Fund of the  
South Dakota Corn Utilization Council  
Schedule of Findings and Responses  
Year Ended June 30, 2011

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**Finding Number 2011-1 – Preparation of Financial Statements and Material Audit Adjustments**

*Condition:* Proper controls over financial reporting include an adequate system for recording and processing entries material to the financial statements, as well as the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

*Criteria:* The Council does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we proposed material audit adjustments that would not have been identified as a result of the Council's existing internal controls, and therefore could have resulted in a material misstatement of the Council's financial statements. We were also requested to draft the financial statements and accompanying notes to the financial statements.

*Cause:* The Council has limited staff. They cannot justify having an individual on staff with the proper accounting skills necessary for preparing the draft financial statements and accompanying notes to the financial statements.

*Effect:* This deficiency results in a reasonable possibility that the Council would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

*Recommendation:* While we recognize that this condition is not unusual for an organization of your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial accounting and reporting requirements of the Council as well as changes in these requirements.

*Management's Response:* Since it is not cost-effective for an organization of our size to have an individual on staff to prepare audit-ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare our financial statements as part of the annual audit. Management and the board of directors will review for propriety the draft financial statements and accompanying notes to the financial statements.

**Finding Number 2011-2 – Lack of Proper Segregation of Duties for the Revenue and Expenditure Functions**

*Condition:* There is a lack of segregation of duties within the cash receipts/revenue and expenditure functions. The same individual, who reconciles revenue received to the remittance forms, prepares vouchers to request funds, prepares the deposit, records amounts to the general ledger and reconciles the bank statement. The individual also prepares checks, records disbursements to the general ledger and mails checks.

*Criteria:* In order to achieve a high level of internal control, the functions of executing transactions, recording transactions and maintaining accountability for assets should be performed by different employees or be maintained under dual control.

*Cause:* The Council has limited staff and cannot justify hiring an additional individual in order to better segregate accounting duties.

*Effect:* Proper segregation of duties helps to minimize the chance of undetected errors or defalcations, since the work of one person serves as a "check" on the work of another.

*Recommendation:* Due to the small size of the office, the Council is limited in the options available to them. Under this situation, the most effective control is management and the board's oversight and knowledge of matters relating to the operations of the Council.

*Management's Response:* We have evaluated the segregation of duties over the revenue function and over the expenditure function. Management and the board of directors will exercise oversight of the accounting functions, which we believe mitigates the risk of material misstatement to a low level. Due to the Council's size and other cost considerations, we believe the cost of any further controls would outweigh the related benefits.

Department of Agriculture Corn Check-Off Fund of the  
South Dakota Corn Utilization Council  
Schedule of Prior Audit Findings  
Year Ended June 30, 2011

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The prior year audit findings related to segregation of duties for the revenue function and for the expenditure function, preparation of the financial statements and footnotes by the auditor, and adjusting journal entries are restated on pages 11 and 12.

Department of Agriculture Corn Check-Off Fund of the  
South Dakota Corn Utilization Council  
List of Officials  
June 30, 2011

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Chad Blindauer, President	Mitchell, South Dakota
Brian Smith, Vice President	Montrose, South Dakota
Frank Kralicek, Secretary/Treasurer	Yankton, South Dakota
David Gillen	White Lake, South Dakota
David Fremark	St. Lawrence, South Dakota
Darren Ihnen	Hurley, South Dakota
Jason Kontz	Colman, South Dakota
Andy Dupraz	Aurora, South Dakota
Justin Davis	Ipswich, South Dakota
Bill Whipple	Wilmot, South Dakota
Bill Chase	Wolsey, South Dakota
Mark Gross	Bridgewater, South Dakota
Kirk Schaunaman	Aberdeen, South Dakota
Bryan Jorgensen	Ideal, South Dakota
Lisa Richardson, Executive Director	Sioux Falls, South Dakota